

DRAFT UPDATE ON THE FINANCIAL FRAMEWORK REVIEW



Informal Consultation

1 April 2016

World Food Programme
Rome, Italy

INTRODUCTION

1. The update on the Financial Framework Review (FFR) to be presented at the Board's 2016 Annual Session will be preceded by an informal consultation on 1 April 2016, at which the Secretariat will give an account of the pilot and prototype phases. Initial results and updates will be provided at the consultation and the Annual Session.

OVERVIEW OF THE FINANCIAL FRAMEWORK REVIEW

Context

2. At its 2016 Second Regular Session, the Board will consider proposals for WFP's support for Agenda 2030 and the Sustainable Development Goals (SDGs) involving the Strategic Plan (2017–2021), the country strategic planning approach, a new planning and budget structure under the FFR, and the new Corporate Results Framework (CRF). This holistic approach will enable WFP to link strategic planning, resources and results to demonstrate more clearly the effectiveness and efficiency of its programmes.
3. The FFR recognizes the Quadrennial Comprehensive Policy Review recommendation that United Nations organizations should harmonize their business practices where possible. Policy changes arising from consultations with the Board, donors, Member States and host governments will reflect the outcomes of the World Humanitarian Summit and the need identified by the High-Level Panel on Humanitarian Financing for “systemic change in humanitarian aid delivery in order to raise new money and use it more effectively”.¹

Background

4. The objectives of the FFR, which is a component of the Integrated Roadmap (see WFP/EB.1/2016/4-F), are to maximize operational effectiveness through realistic planning, enhanced accountability, streamlined processes and harmonized financial and results frameworks.
5. At its 2015 Annual Session, the Board considered structural issues affecting the current financial framework² in terms of fragmented budget authority, multiple budget entities at the country level and an inflexible budget structure. At the Board's 2015 Second Regular Session, the Secretariat described the prioritized work streams of the FFR and the associated risks.³
6. The FFR is based on three principles: i) WFP will continue to be a 100 percent voluntary-funded organization; ii) full cost recovery will continue to apply to all contributions (though the way in which it is applied under General Rule XIII.4 may change); and iii) WFP will continue to track contribution-specific expenditures and will work with donors to simplify and harmonize reporting requirements.

¹ High-Level Panel on Humanitarian Financing. 2016. *Report to the Secretary-General: Too important to fail – addressing the humanitarian financing gap*. January.

² WFP/EB.A/2015/6-C/1.

³ WFP/EB.2/2015/5-C/1.

FINANCIAL FRAMEWORK REVIEW: PRIORITIZED WORK STREAMS

7. The FFR involves the following work streams:
 - *Budgeting for Operational Effectiveness*. This is intended to reduce internal fragmentation, simplify processes and maximize transparency, flexibility and accountability; it will deliver the Country Portfolio Budget (CPB) structure and is aligned to the country strategic planning approach.
 - *Resource-Based Planning*. This standardizes resource-based plans at the country office level to improve planning and performance management.
 - *Macro Advance Financing*. This provides aggregated budget authority for country offices early in the process to reduce the effects of fragmented funding streams, increase the predictability of resources and maximize efficiency and effectiveness.

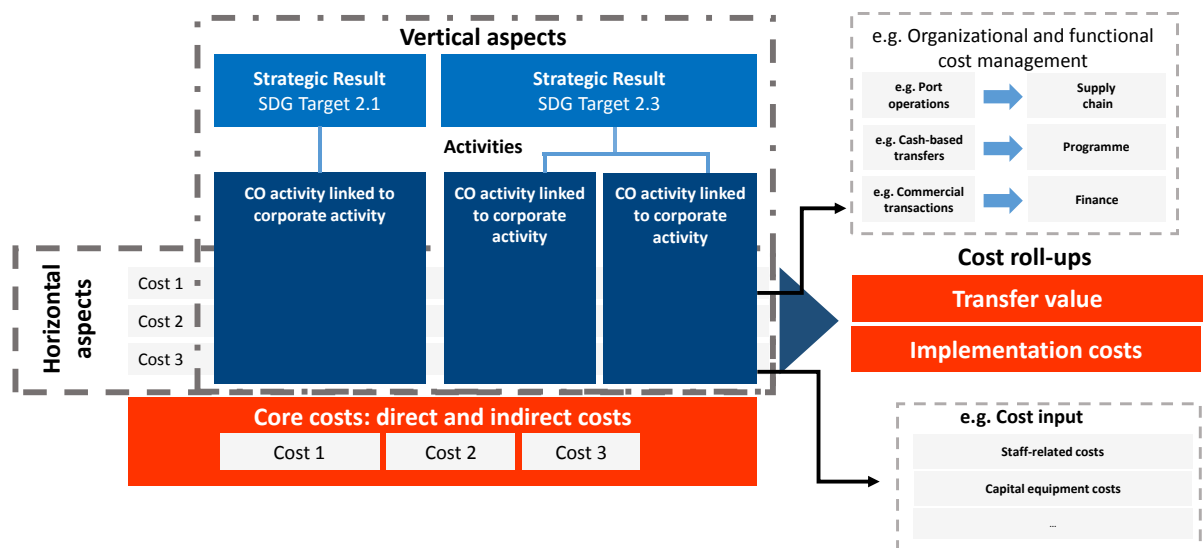
Budgeting for Operational Effectiveness: the Country Portfolio Budget

8. The proposed CPB will harmonize WFP's strategies and operations at the country level in conjunction with the Strategic Plan, the country strategic planning approach and the CRF.
9. This work stream is based on a review of WFP's current budget structure and of the financial frameworks of other United Nations organizations, non-governmental organizations and private-sector entities. Interviews with managers during country office visits identified budgeting challenges in various functional and operational contexts.
10. A summary presented to the Budgeting for Operational Effectiveness Expert Working Group⁴ in September 2015 identified the requirements for a budget structure that:
 - i) maximizes WFP's ability to respond efficiently and effectively to prioritized operational needs;
 - ii) provides for disciplined financial management, reporting and analysis; and
 - iii) facilitates fundraising. Requirements for a planning and budget framework include:
 - an overview of all operations in line with the Country Strategic Plan (CSP);
 - clear "line of sight" from strategy, planning and resourcing to results;
 - a simple and unified structure for implementing operations;
 - clear demonstration of impact, cost-effectiveness and cost-efficiency; and
 - improved accountability.
11. Two preliminary budget types were developed. These were used to model current budgets in the Colombia, Indonesia, Jordan, Uganda and Zimbabwe country offices to test feasibility, practicality and effectiveness, and to identify governance and fundraising implications.

⁴ Comprises participants from country offices, regional bureaux and Headquarters.

12. In November 2015 the Budgeting for Operational Effectiveness Expert Working Group proposed a CPB structure involving:
- a single planning period encompassing all operations for a calendar year, with a minimum of one year;
 - activity-based planning: activities are the primary dimension for operational planning;
 - a clear “line of sight” from strategic result to activities to costs;
 - identification of activity costs in terms of transfer value or implementation costs;
 - new cost definitions harmonized where possible with other United Nations agencies to facilitate reporting and comparison;
 - core costs to be managed on a country-wide basis rather than linked to specific activities; and
 - creation of a separate activity category for initial response to emergencies.
13. Figure 1 shows a preliminary planning and budget structure based on the above considerations.

Figure 1: Preliminary country portfolio budget model



WFP supported outcomes and context will be reviewed to determine the effects on the model. Activities will be linked to just one Strategic Result.

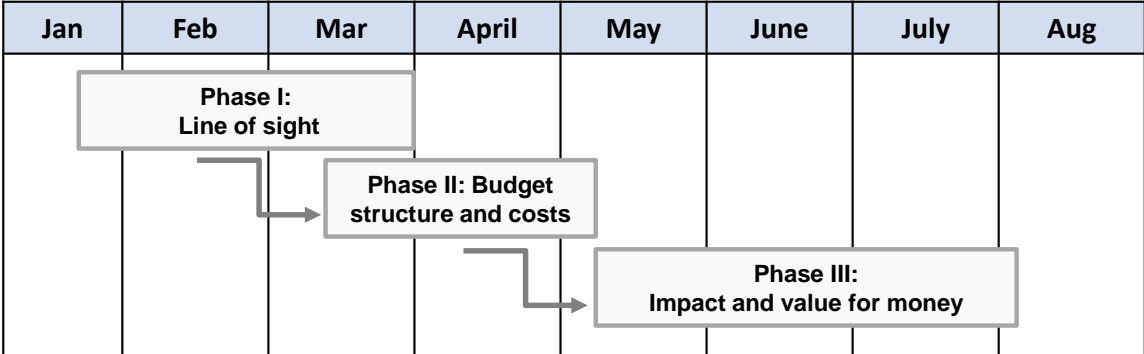
14. The preliminary CPB structure is based on a budget control hierarchy within a country. The “vertical” aspects of the CPB begin at the planned activity level in a country office. This activity is linked to a WFP-defined corporate activity which links, at the highest level, to a single WFP Strategic Result/SDG target. Although WFP supported outcomes are not part of the budget control hierarchy they are the central organizing feature of CSPs and are integral for performance reporting. WFP supported outcomes and their associated activities can be linked to only one WFP Strategic Result/SDG target.

- 15. The “horizontal” aspects are assistance transfer values and implementation costs. It should be noted that the model supports organizational and functional cost management. “Core costs” refer to basic minimum costs within a country office that are not directly linked to activities.
- 16. The CPB structure provides an opportunity to enhance:
 - operational effectiveness, because managers have a holistic view of operations allowing functions, support and management to work more effectively to deliver;
 - the clear “line of sight” from strategy, planning and resourcing to results;
 - the demonstration of competitiveness and transparency to internal and external stakeholders;
 - flexibility in that country offices are empowered to respond to needs without systemic constraints;
 - accountability, because it is clearer what Country Directors are responsible and accountable for; and
 - simplification, in that processes are streamlined and aligned with operations.
- 17. The CPB model will consider how gender equality and women’s empowerment reporting requirements align with the CRF.

Three-Phase Prototype Process

- 18. The CPB model and its supporting features are initial concepts: they will be tested in country offices using a three-phase approach from January to July 2016 (see Figure 2) and adapted over the prototype phase in light of the outcomes. Between August and December 2016 the model will be further refined to support potential Country Strategic Plans in select countries in 2017.
- 19. As results from country office testing emerge, the model may change significantly to maximize operational delivery. The CRF will be tested with the CPB prototype from phase II onwards with a view to ensuring that the design is aligned with the new Strategic Plan, the country strategic planning approach and the Corporate Results Framework to be submitted to the Board at its 2016 Second Regular Session.

Figure 2: Prototype phases planned in 2016



The CPB model will be further refined between August and December 2016 to support potential Country Strategic Plans in select countries in 2017.

20. Each phase has its objectives and outputs, and the prototypes will be updated as solutions from each phase are finalized. Country Directors and their teams will lead the testing and will present interim assessments after each phase to the Project Board.⁵ The Boston Consulting Group (BCG) will support Country Directors in identifying changes required at the conclusion of each phase and in communicating the cost benefits of the CPB structure.
21. The country offices participating in the prototype process also took part in the initial budget model exercise. Indonesia and Zimbabwe have completed their CSPs; Colombia, Jordan and Uganda are still in the process. The additional country offices to be selected for phase III will include a large country office and/or a country with a Level 3 emergency.
22. Phase I started in late January 2016 in Jordan and Indonesia with a view to refining the high-level budget planning structure to establish a single “line of sight” from the high level – WFP Strategic Results/SDG targets – to country-office activities. It will begin by working on the strategy and planning aspects of the budget structure.
23. Phase II will serve to create an inclusive budget structure, define cost structures and consider the application of full cost-recovery. The goal is to test a budget structure that encompasses all country-office operations and common services, service-level agreements, trust funds, regional operations and sudden-onset emergencies. Phase II will be conducted in Colombia, Uganda and Zimbabwe as well as the Phase I prototype countries Jordan and Indonesia. Initial results from Phase II are expected to be presented to the Board at the informal consultation scheduled for 9 May; an update will be provided at the Board’s 2016 Annual Session.
24. Phase III will: i) define ways of measuring and reporting results and value for money under the proposed CRF; ii) identify changes required in policies, procedures and regulations; and iii) provide an initial costing of the investments needed for implementation. It will involve a large country office and/or a country with a Level 3 emergency, along with Phase I and Phase II countries. Results will be presented to the Board at informal consultations with a view to approval of the CPB model at the 2016 Second Regular Session.

⇒ *Phase I country examples: Jordan and Indonesia*

25. The Jordan and Indonesia country offices have reviewed their existing operations and mapped their portfolios of activities and associated budgets to WFP Strategic Results/SDG targets to create the desired “line of sight” from strategy to planning and implementation.
26. The Indonesia country office was one of the first to develop a CSP. Prototyping the CPB model in Indonesia will therefore serve to validate the alignment of the CSP approach with the CPB model. Within the prototype environment, the country offices will record transactions to test and refine the CPB model. They will also begin defining an initial cost-accounting model to ensure that the value of direct transfers and implementation costs are captured and that core costs are clearly defined.
27. Expected outputs of Phase I include:
 - a status report on results of Phase I;
 - identification of integration issues such as interdependencies with other WFP systems and processes that will be considered in the technical transition implementation plan;

⁵ The Project Board comprises Assistant Executive Directors, select Division Directors, Regional Directors and select Country Directors and provides strategic oversight.

- an initial analysis of organizational readiness; and
- an interim impact analysis prepared by Country Directors with support from BCG.

Opportunities for Discussion

28. Governance issues to be explored include the ways in which authority is conferred or delegated under the integrated framework and the information required to enable the Board to fulfil its governance and oversight role. The CSP and a supporting budget structure could potentially become the Board’s primary governance document.
29. With the shift away from programme categories, there will be a further review of how context will be incorporated in the new environment of country strategic planning and CPBs. Internal discussions under way will inform the treatment of context as well as WFP supported outcomes within the budget structure.
30. The application of full cost recovery in CPB budgets will involve consideration of: i) changes to cost categories under the proposed CPB structure; ii) improved articulation of costs; and iii) how the full cost-recovery principle will be applied to contributions. WFP is committed to ensuring that costs are equitably distributed among donors.
31. Consideration of these issues will be informed by the outcomes of the World Humanitarian Summit, consultations with the Board and bilateral meetings.

Resource-Based Planning

32. WFP’s current programme of work consists of projects designed on the basis of assessments in collaboration with government counterparts and partners. It is a needs-based response plan⁶ that effectively constitutes an appeal for the resources to implement the required operations, and it will remain in place as the basis of WFP’s advocacy for full funding of responses to all beneficiary requirements.
33. The objective of the resource-based planning work stream is to create a secondary operational planning layer that distinguishes clearly between “needs” and “plans” given that operational requirements consistently surpass the level of contributions. Many country offices already produce resource-based plans by prioritizing assistance according to foreseen resources: this work stream – driven by internal resource management – will standardize the process as best practice to be used in all country offices.
34. By utilizing a standardized resource-based plan, country offices can realize the following benefits:
 - Effective planning. Integration of funding projections, distribution plans and resource-based budgets creates an enabling environment in which country offices can use resources efficiently to obtain optimum results.
 - Direction. During the planning process, country offices prioritize the activities to be implemented: using a standardized resource-based planning process provides direction for managers and staff.

⁶ This excludes development projects as per General Rule X.8: Availability of resources.

- Problem anticipation. Country offices can address problems proactively to minimize their effects on projects and to maximize the available resources.
- Visibility. Under the 2016 funding projection, country offices prioritize their activities according to the approved needs-based plan; the information is available to Headquarters units and the regional bureaux.
- Data centralization and standardization. Country-office funding projections, monthly projected expenditures and prioritized activities are collected in the same system in a standard format. This ensures the traceability of the data, optimizes data flows and minimizes the time required for statistical analyses.

Pilots

35. Pilots are under way in selected country offices with a view to standardizing resource-based planning. Inputs from a workshop in October 2015 involving staff from country offices, regional bureaux and Headquarters have been incorporated in the pilot process and the resource-based planning tool. Pilots are being implemented using existing tools, with minimum technical or procedural integration.
36. A resource-based plan enables more accurate comparison of planned versus actual costs and enhances accountability. As part of the results-based planning approach, projects in the pilot countries are applying the principle of full cost recovery using their resource-based plan with a view to stabilizing project rates.
37. The Ethiopia, Guatemala, Kenya, Lesotho, Mali, Nicaragua, Pakistan, Sudan and Zimbabwe country offices participated in the resource-based planning pilot, whose results will be assessed in July 2016. The lessons learned will inform the development of a long-term solution that may also require new or more integrated tools and systems to reflect potential changes in the budget structure.

Macro Advance Financing

38. The Internal Project Lending facility provides loans to projects using forecast contributions⁷ as collateral. It has a ceiling of USD 570 million, and is backed by the operational reserve of USD 95 million – a leverage factor of 6 to 1.
39. Macro advance financing is an internal resource-management process whereby WFP owns the risk under the Internal Project Lending facility. It is intended to give country offices the authority to incur costs, for example from the start of a financial period. Macro advances are not tied or linked to forecasts of cash contributions: they are linked to an anticipated level of resources that a country office expects for a given year on the basis of information about donors and historical trends. All donor conditions are respected when the advance is repaid.
40. The potential effects of macro advance financing for operations include:
 - improved stability and continuity of project implementation;
 - procurement and transport savings through timely food purchases;
 - continuity of nutrition activities whose results are sensitive to interruptions;

⁷ Some forecast contributions are ineligible for use as collateral because of donor conditions.

- effective implementation of time-sensitive activities such as asset creation, school feeding, etc.;
- shifting to cash-based transfers by providing stable funding; and
- improved productivity and staff well-being as a result of long contracts.

Pilots

41. The Secretariat has set aside up to USD 200 million within the Internal Project Lending facility to pilot the macro advance financing concept in 2016. Pilot countries were selected on the basis of: i) historical funding trends; ii) stability in terms of needs and risk assessments; iii) participation in the resource-based planning pilot with a validated resource-based plan; and iv) an accountability agreement acknowledging the responsibilities and obligations associated with the macro advance.
42. Macro advances for four pilot countries were approved by the Strategic Resource Allocation Committee and endorsed by the Executive Director (see Table 1). Commitments and expenditures will be made against the advances, and contributions received will be used to repay them in accordance with donors' conditions.
43. At the conclusion of the pilot, BCG will help to quantify gains in efficiency and effectiveness; the Secretariat will assess its risk appetite and will establish ways of maximizing the operational value of the advances. The pilots will be compared with the current model to demonstrate potential for increased efficiency and improved delivery of assistance to beneficiaries.

⇒ *Country examples*

44. Table 1 lists the country offices participating in the resource-based planning and macro-advance financing pilots. Table 2 shows the benefits anticipated in the participating country offices.

TABLE 1: SUMMARY OF RESOURCE-BASED PLANS AND MACRO-ADVANCE FINANCING				
Country	Project	2016 plan*	2016 resource-based plan	Released macro-advance financing (to date)
		<i>USD million</i>		
Ethiopia	PRRO 200700	163	97	25.0
Kenya	PRRO 200737	118	89	11.5
Kenya	PRRO 200736	114	65	8.3
Kenya	CP 200680	30	27	9.5
Mali	PRRO 200719	106**	73	15.0
Sudan	PRRO 200808	347	270	13.0
Total for macro-advances				82.3

* WINGS, 3 March 2016.

** Budget revision in progress.

PRRO: protracted relief and recovery operation

CP: country programme

TABLE 2: SUMMARY OF EXPECTED BENEFITS FROM RESOURCE-BASED PLANS AND MACRO-ADVANCE FINANCING		
Country	Project	Benefits
Ethiopia	PRRO 200700	Enables the country office to mitigate pipeline breaks that would affect refugees' nutritional status and to reduce operational costs by shifting to cash-based transfers. Enables the country office to introduce the use of biometrics to improve targeting of beneficiaries.
Kenya	PRRO 200737	Enables smooth cash flows for timely procurement and delivery of food between in-kind contributions. Maintains continuity of funding for the cash component of hybrid rations. Maintains continuity of nutrition activities whose results are sensitive to interruptions.
Kenya	PRRO 200736	Provides advance planning and continuity to ensure the success of the asset-creation programme, which will also facilitate FAO* and IFAD** activities.
Kenya	CP 200680	Provides continuity for the school feeding programme to ensure smooth transition to the Government during 2016.
Mali	PRRO 200719	Enables timely purchase of nutrition products to reduce lead-times and prevent pipeline breaks. Enables the launch of resilience activities at appropriate times. Procurement of locally grown cereals at the start of the harvest is likely to result in significant savings.
Sudan	PRRO 200808	Enables timely procurement of food for pre-positioning in West Darfur and South Kordofan ahead of the rainy season. Ensures uninterrupted implementation of nutrition activities from January to June 2016. Ensures sustainability of cash-based transfers to refugees in Kassala.

* Food and Agriculture Organization of the United Nations.

** International Fund for Agricultural Development.

NEXT STEPS

45. Informal consultations with the Board on the FFR and other elements of the Integrated Roadmap will provide additional opportunities for engagement prior to the 2016 Second Regular Session.
46. Implementation of the CSP and CPB processes, with country offices at the centre, will transform the way WFP works. The phased prototype approach will ensure the integration of processes, including the testing of the CRF, and will inform the overall framework and approach to maximize operational delivery. Due to the scope of work, there will be a need to review resource requirements for the project.
47. The Secretariat recognizes there could be implications for donor systems and policies. WFP will therefore continue to engage with donors in the discussion of both CSP and CPB processes, as well as other aspects of the FFR.

ACRONYMS USED IN THE DOCUMENT

BCG	The Boston Consulting Group
CPB	Country Portfolio Budget
CRF	Corporate Results Framework
CSP	Country Strategic Plan
FFR	Financial Framework Review
SDG	Sustainable Development Goal